

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Luther Area Public Library	County Lake
Fiscal Year End 3-31-06	Opinion Date 7-31-06	Date Audit Report Submitted to State September 18, 2006	

We affirm that:

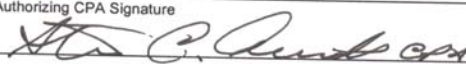
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
Authorizing CPA Signature 		Printed Name Steven C. Arends	Zip 49601
		License Number 1101013211	

LUTHER AREA PUBLIC LIBRARY

LUTHER, MICHIGAN

MARCH 31, 2006

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

MARCH 31, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

July 31, 2006

INDEPENDENT AUDITORS' REPORT

Luther Area Public Library
115 State Street
Luther, Michigan 49656

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Luther Area Public Library, Luther Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Luther Area Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Luther Area Public Library as of March 31, 2006 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5 and 19 through 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Luther Area Public Library, Luther Michigan's basic financial statements. The accompanying financial information listed as "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006

The Luther Area Public Library, a Public Library located in Lake County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Luther Area Public Library's administration's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

C. Summary of Net Assets

The following schedule summarizes the net assets at March 31, 2006

Assets

Current Assets	<u>\$ 52,522</u>
Non Current Assets	
Capital Assets	\$ 51,126
Less Accumulated Depreciation	<u>(4,935)</u>
Total Non Current Assets	<u>\$ 46,191</u>
Total Assets	<u>\$ 98,713</u>

Liabilities

Current Liabilities	<u>\$ 406</u>
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Net Assets

Invested in Capital Assets	46,191
Unrestricted	<u>52,116</u>
Total Net Assets	<u><u>\$ 98,307</u></u>

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006

D. Analysis of Financial Position

During the fiscal year ended March 31, 2006, the Library's net assets increased by \$4,742. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended March 31, 2006, \$1,490 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended March 31, 2006, \$2,527 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, current year disposals and the current year's depreciation is an increase to capital assets in the amount of \$1,037 for the fiscal year ended March 31, 2006.

E. Results of Operations

For the fiscal year ended March 31, 2006 the results of operations were:

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006

General Revenues

Investment Earnings	\$ 1,349
State Sources	23,710
Other	<u>1,069</u>
Other General Revenues	<u>\$ 26,128</u>

Program Revenues

Charges for Services	\$ 1,703
Operating Grants	<u>8,462</u>
Total Program Revenues	<u>\$ 10,165</u>
Total Revenues	<u>\$ 36,293</u>

Expenses

Recreation and Culture	<u>\$ 31,551</u>
Change in Net Assets	<u>\$ 4,742</u>

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. State Sources

The majority of the state sources is comprised of penal fines received from Lake County. The Library collected \$22,895 in penal fines for 2006.

2. Grants

The Library funds a portion of its operations with grants and donations. For the fiscal year ended March 31, 2006, grants accounted for \$8,462.

G. General Fund Budgetary Highlights

The Uniform Budgeting and Accounting Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on April 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on March 31.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual
Total Revenues	\$ 38,760	\$ 38,760	\$ 36,293
Total Expenditures	41,659	41,659	32,588
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,899)	\$ (2,899)	\$ 3,705

There were no changes in the Total Expenditures and Total Revenues from Original Budget to Final Budget.

H. Capital Assets

At March 31, 2006, the Library had \$51,126 in capital assets, including equipment, furniture and fixtures, as well as buildings. Depreciation expense for the year amounted to \$1,490 bringing the accumulated depreciation to \$4,935 as of March 31, 2006.

I. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from penal fines. Any impairment to these funding sources would greatly impact the future of the Library.

J. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Luther Area Public Library, 115 State Street, Luther, Michigan, 49656.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN
STATEMENT OF NET ASSETS
MARCH 31, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 52,522
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NON CURRENT ASSETS

Capital Assets	\$ 51,126
Less: Accumulated Depreciation	(4,935)

Total Non Current Assets	\$ 46,191
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TOTAL ASSETS	\$ 98,713
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LIABILITIES

CURRENT LIABILITIES

Payroll Withholdings Payable	\$ 202
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Payroll Taxes Payable	204
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Total Liabilities	\$ 406
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NET ASSETS

Invested in Capital Assets	\$ 46,191
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Unrestricted	52,116
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Total Net Assets	\$ 98,307
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TOTAL LIABILITIES AND NET ASSETS	\$ 98,713
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The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR	OPERATING	ACTIVITIES
		SERVICES	GRANTS	NET (EXPENSES)
				REVENUES AND
				CHANGE IN
				NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Recreation and Culture	\$ 31,551	\$ 1,703	\$ 8,462	\$ (21,386)
<u>GENERAL REVENUES</u>				
Investment Earnings				\$ 1,349
State Sources				23,710
Other				1,069
Total General Revenues				\$ 26,128
Change in Net Assets				\$ 4,742
NET ASSETS - Beginning of Year				93,565
NET ASSETS - End of Year				\$ 98,307

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

BALANCE SHEET

MARCH 31, 2006

ASSETS

Cash	\$ 52,522
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LIABILITIES AND FUND BALANCE

LIABILITIES

Payroll Withholdings Payable	\$ 202
Payroll Taxes Payable	204
	<hr/>
Total Liabilities	\$ 406

FUND BALANCE

Unreserved	
Designated for Building Improvement	\$ 14,465
Undesignated	37,651
	<hr/>
Total Fund Balance	\$ 52,116

TOTAL LIABILITIES AND
FUND BALANCE

\$ 52,522

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF THE GENERAL FUND TO NET ASSETS

MARCH 31, 2006

Total General Fund Balance		\$	52,116
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the fund			
The cost of the capital assets is	\$	51,126	
Accumulated depreciation is		(4,935)	46,191
			<hr/>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u>98,307</u>

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

REVENUES

State Grants	
Library State Aid	\$ 814
Penal Fines	22,896
Contributions from Local Units	1,000
Interest and Rents	
Earnings on Investments and Deposits	1,349
Other Revenue	
Book Sales	431
Bag Sales	1,272
Donations/Grants	7,462
Miscellaneous	1,069
	<hr/>
Total Revenues	\$ 36,293

EXPENDITURES

Recreation and Culture

Personal Services	
Salaries and Wages	
Librarians	\$ 12,106
Treasurer	300
Employee Fringe Benefits	
Medicare and Social Security	959
Michigan Unemployment	7
Supplies	
Books	3,068
Office Supplies	1,782
Other Services and Charges	
Utilities	2,766
Internet Connection	400
Travel	295
Insurance	3,372
Dues	140
Education and Training	85
Summer Program	438
Miscellaneous	963

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

Capital Outlay	
Building and Improvements	4,568
Equipment	<u>1,339</u>
Total Expenditures	<u>\$ 32,588</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 3,705
<u>FUND BALANCE</u> - Beginning of Year	<u>48,411</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 52,116</u></u>

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2006

Net change in General Fund Balance	\$ 3,705
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities.	
These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(1,490)
Capital Outlay	<u>2,527</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,742</u></u>

The notes to the financial statements are an integral part of this statement.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Luther Area Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

A. Reporting Entity

The Luther Area Public Library provides library services to the residents of the Luther, Michigan area from its facility located in Luther, Michigan. The Library is a legally established district library pursuant to Section 6 of Act 24 of the Public Acts of 1989. The participating municipalities include Dover Township, Ellsworth Township, Newkirk Township, and the Village of Luther. The District Library Board is made up of six appointed board members. Under the criteria established by generally accepted accounting principles, the Library has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Basis

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Basis

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

State aid and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Site Improvements	Parking lots, flagpoles, sidewalks, fencing, outdoor lighting, sprinkling system	20
Library Building		50
HAC	Heating and air conditioning system	20
Roofing		20
Interior Construction		25
Carpet Replacement		7
Electrical / Plumbing		30
Kitchen Equipment		15
Furniture and Accessories		15
Business Machines		10
Computer, Software and Hardware		5

The Library's capitalization policy is to capitalize individual amounts exceeding \$5,000 for land, buildings and improvements and capitalizing individual amounts exceeding \$500 for equipment and other personal property.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Treasurer of the Library annually prepares an operating budget taking into consideration the recommendations of the board. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board from time to time throughout the year.
4. Budget appropriations lapse at the end of the fiscal year.
5. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

III. DETAILED NOTES ON GENERAL FUND

A. Deposits and Investments

The Library's deposits and investments are all on deposit with Lake-Osceola or State Bank of Luther.

Investment rate risk. The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirement.

Foreign currency risk. The Library is not authorized to invest in investments, which have this type of risk.

Credit risk. The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

Concentration of credit risk. The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, none of the library's bank balance of \$52,522 was exposed to custodial credit risk because none of it was uninsured or uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Library held no investments.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

B. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
Capital assets:				
Buildings	\$ 40,000	\$ 0	\$ 0	\$ 40,000
Furniture and Fixtures	7,500	0	0	7,500
Equipment	1,099	2,527	0	3,626
Total Capital Assets	\$ 48,599	\$ 2,527	\$ 0	\$ 51,126
Less accumulated depreciation for:				
Buildings	\$ 900	\$ 720	\$ 0	\$ 1,620
Furniture and Fixtures	2,500	500	0	3,000
Equipment	45	270	0	315
Total accumulated depreciation	\$ 3,445	\$ 1,490	\$ 0	\$ 4,935
Net Capital Assets	\$ 45,154	\$ 1,037	\$ 0	\$ 46,191

Depreciation for the fiscal year ended March 31, 2006 amounted to \$1,490.

IV. OTHER INFORMATION

A. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required for the current year or three prior years.

The Library continues to carry insurance for other risks of loss, including employee health and accident insurance.

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
State Grants			
Library State Aid	\$ 1,600	\$ 1,600	\$ 814
Penal Fines	26,000	26,000	22,896
Contributions from Local Units	0	0	1,000
Interest and Rents			
Earnings on Investments and Deposits	0	0	1,349
Other Revenue			
Book Sales	1,000	1,000	431
Bag Sales	6,800	6,800	1,272
Donations/Grants	3,300	3,300	7,462
Miscellaneous	60	60	1,069
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 38,760	\$ 38,760	\$ 36,293

EXPENDITURES

Recreation and Culture

Personal Services

Salaries and Wages

Librarians

\$ 11,700 \$ 11,700 \$ 12,106

Treasurer

300 300 300

Employee Fringe Benefits

0

Medicare and Social Security

1,800 1,800 959

Michigan Unemployment

9 9 7

Supplies

Books

3,000 3,000 3,068

Office Supplies

500 500 1,782

Other Services and Charges

Utilities

2,600 2,600 2,766

Internet Connection

600 600 400

Travel

400 400 295

Insurance

3,900 3,900 3,372

Dues

150 150 140

Education and Training

500 500 85

Summer Program

500 500 438

LUTHER AREA PUBLIC LIBRARY
LUTHER, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
Miscellaneous	8,900	8,900	963
Capital Outlay			
Buildings and Improvements	3,000	3,000	4,568
Equipment	3,800	3,800	1,339
Total Expenditures	<u>\$ 41,659</u>	<u>\$ 41,659</u>	<u>\$ 32,588</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,899)	\$ (2,899)	\$ 3,705
<u>FUND BALANCE</u> - Beginning of Year	<u>53,395</u>	<u>53,395</u>	<u>48,411</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 50,496</u></u>	<u><u>\$ 50,496</u></u>	<u><u>\$ 52,116</u></u>

Baird, Cotter and Bishop, P.C.

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JONATHAN E. DAMHOF, C.P.A.

MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

July 31, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Library Board
Luther Area Public Library
Luther, Michigan

As a result of our audit of the basic financial statements of the Luther Area Public Library for the year ended March 31, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the Library:

GASB 34

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for the Library's financial statements. For the Luther Area Public Library, these changes were first reported in the March 31, 2006 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

- a) Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
- b) Several new types of financial statements are now included that report financial information on a Township-wide basis and incorporate capital assets and a provision for depreciation on those assets.

Budgeting

Relative to Act 621 of the Public Acts of 1978 the Uniform Accounting and Budgeting Act, the following items were noted:

- (a) Several items in the budget exceeded the budgeted amounts. In the future, the budget should be amended prior to incurring expenses in excess of budgeted amounts. The amendments should be approved by the Board and recorded in the official minutes.

Credit Card Invoices

In examining credit card billings, we could not locate any backup documentation for specific credit card charges. In the future, we recommend that all credit card individual charge statements be attached to the monthly invoices for audit verification.

Internal Control

We observed that bills are not approved for payment by the Library Board, we also did not observe evidence of approval for payment on the bills/invoices (source documents) themselves. We suggest that as a method of strengthening internal control, the Library consider having a board member sign or initial the source document as “approved” at the time the approval is made and approved in board minutes.

We would like to thank the Board for awarding our firm the audit assignment and thank the Treasurer for her cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your accounting and recordkeeping, please feel free to call on us.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

July 31, 2006

LETTER OF REPORTABLE CONDITIONS

Luther Area Public Library
Luther, Michigan

In planning and performing our audit of the basic financial statements of the Luther Area Public Library, for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect that organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

- (a) The relatively small number of people involved in the accounting functions of the Library make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.